

## Message Text

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TO AMEMBASSY BERN  
INFO AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY BONN  
AMEMBASSY TOKYO  
AMEMBASSY ROME  
AMEMBASSY BRUSSELS

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FOR USEEC

E.O. 11652: N/A

TAGS: EFIN

SUBJECT: INTERNATIONAL BANKING ACT OF 1977  
REF: BERN 583 (NOTAL)

1. AFTER SOME DELAY IN THE PAST FEW WEEKS THE HOUSE  
BANKING, HOUSING, AND URBAN AFFAIRS COMMITTEE COMPLETED  
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ITS MARK UP OF THE PROPOSED INTERNATIONAL BANKING ACT OF  
1977 ON FEBRUARY 23. THE BILL MAY COME TO THE HOUSE FLOOR  
DURING WEEK OF MARCH 13. THE PURPOSE OF THE BILL IS TO  
REGULATE OPERATIONS OF FOREIGN BANKS IN THE U.S. AND  
PROMOTE GREATER COMPETITIVENESS BETWEEN U.S. DOMESTIC  
BANKS AND FOREIGN BANKS IN THE U.S. THE TWO MAIN ISSUES  
IN THE BILL ARE THE EXTENT TO WHICH FOREIGN BANKS SHOULD

BE PERMITTED TO ESTABLISH BRANCHES IN MORE THAN ONE STATE, AND WHETHER SUCH BANKS SHOULD BE SUBJECT TO REGULATION BY THE FEDERAL RESERVE SYSTEM AS OPPOSED TO THAT BY THE STATES IN WHICH THEY OPERATE. FURTHER ATTEMPTS TO AMEND SECTIONS OF THE BILL RELATED TO THESE TWO ISSUES ARE EXPECTED.

2. AS AMENDED IN THE COMMITTEE, SECTION 5 OF THE BILL WOULD ALLOW FOREIGN BANKS: (A) TO ESTABLISH FEDERALLY LICENSED BRANCHES IN MORE THAN ONE STATE ONLY IF NATIONAL BANKS MAY BRANCH INTERSTATE; AND (B) TO ESTABLISH STATE

LICENSED BRANCHES INTERSTATE ONLY IF STATE BANKS CAN BRANCH INTERSTATE. BRANCHES ALREADY ESTABLISHED PRIOR TO MAY 1, 1976 MAY CONTINUE TO OPERATE. UNDER THE MCFADDEN ACT U.S. BANKS MAY NOT BRANCH OUTSIDE THE BORDERS OF THE STATE IN WHICH THEY ARE CHARTERED UNLESS PERMITTED BY STATE LAW. AT THIS TIME STATES DO NOT PERMIT INTERSTATE BRANCHING. SINCE FOREIGN BANK OPERATIONS IN THE U.S., UNLESS THEY ARE SUBSIDIARIES, ARE NOT FORMALLY CHARTERED, BUT RATHER LICENSED, THEY GENERALLY HAVE NOT BEEN SUBJECT TO ALL STATE REGULATIONS PERTAINING TO U.S. BANKS, SUCH AS THE PROHIBITION AGAINST INTERSTATE BRANCHING.

3. AS AMENDED BY THE COMMITTEE, SECTION 7 OF THE BILL ALLOWS THE FEDERAL RESERVE SYSTEM TO SET RESERVE REQUIRE-  
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MENTS FOR (1) U.S., BRANCHES AND AGENCIES OF FOREIGN BANKS; AND (2) STATE BRANCHES IN CONSULTATION AND COOPERATION WITH STATE BANK SUPERVISORY AGENCIES. THIS SECTION ALSO ENTITLES THE FRB TO RECEIVE EXAMINATION REPORTS FROM STATE BANK AUTHORITIES ON STATE LICENSED FOREIGN BANK OPERATIONS. (THE FEDERAL RESERVE BOARD HAD SUPPORTED LANGUAGE WHICH WOULD HAVE GIVEN THE SYSTEM SOLE AUTHORITY TO REGULATE FOREIGN BANKS IN THE U.S.).

4. THE BILL'S OTHER ELEMENTS INCLUDE:

(A) PROVISIONS FOR THE COMPTROLLER OF THE CURRENCY TO AUTHORIZE ESTABLISHMENT OF "FEDERAL BRANCHES AND AGENCIES OF FOREIGN BANKS, SUBJECT TO RULES AND REGULATIONS APPLICABLE TO U.S. NATIONAL BANKS. STATE LICENSING WOULD CONTINUE AS AN ALTERNATIVE.

(B) REQUIREMENT THAT ALL FEDERALLY LICENSED BRANCHES OF FOREIGN BANKS AND ALL STATE LICENSED BRANCHES IN STATES REQUIRING DEPOSIT INSURANCE FOR STATE BANKS HAVE FEDERAL DEPOSIT INSURANCE AND ALSO MAINTAIN A SURETY BOND OR A PLEDGE OF ASSETS WITH THE FEDERAL DEPOSIT INSURANCE CORPORATION(FDIC). ALMOST ALL U.S. BANKS ARE REQUIRED TO

HAVE FDIC COVERAGE. (THE SURETY BOND ON PLEDGE OF ASSETS IS DESIGNED TO PROVIDE PROTECTION TO THE DEPOSIT INSURANCE FUND IN VIEW OF THE FACT THAT IT WOULD BE INSURING DEPOSITS OF A BRANCH RATHER THAN A BANK ITSELF.

(C) PROVISION THAT ALL FOREIGN BANKS ENGAGED IN COMMERCIAL BANKING IN U.S. BECOME SUBJECT TO THE PROVISIONS OF THE BANK HOLDING COMPANY ACT. SUCH FOREIGN BANKS WOULD BE PROHIBITED FROM ENGAGING IN NON-BANK ACTIVITIES EXCEPT AS ALLOWED TO U.S. BANK HOLDING COMPANIES. EXISTING NON-BANK ACTIVITIES WOULD HAVE TO BE TERMINATED BY THE END OF 1985 UNLESS THEY WERE UNDERWAY BEFORE MAY 23, 1977. THE PROVISIONS IN THE ORIGINAL BILL

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WHICH DISTINGUISHED BETWEEN SECURITIES AFFILIATES AND OTHER NON-BANK ACTIVITIES HAVE BEEN DELETED. SOME FOREIGN BANKS HAD EXPRESSED CONCERN ABOUT THIS ISSUE.

(D) PROVISION THAT THE SECRETARY OF THE TREASURY WILL ISSUE GUIDELINES TO ASSIST FEDERAL AND STATE BANKING AUTHORITIES IN ACTING ON APPLICATIONS TO ESTABLISH FOREIGN BRANCHES OR AGENCIES. IN ISSUING SUCH GUIDELINES, THE SECRETARY IS TO TAKE INTO ACCOUNT THE TREATMENT IN FOREIGN COUNTRIES OF OPERATIONS OF U.S. FINANCIAL INSTITUTIONS. (POSTS HAVE RECENTLY RECEIVED TREASURY DEPARTMENT INQUIRY ON TREATMENT OF U.S. FINANCIAL INSTITUTIONS, WHICH WILL BE BASIS OF SUCH A JUDGEMENT). ALL SUCH APPLICATIONS MUST BE MADE AVAILABLE TO STATE AND TREASURY DEPARTMENTS AND TO FEDERAL RESERVE BOARD FOR COMMENT.

(E) REQUIREMENT THAT ALL FOREIGN BANK REPRESENTATIVE OFFICES MUST REGISTER WITH SECRETARY OF THE TREASURY.

5. BILL HAS NOT YET BEEN INTRODUCED IN SENATE, ALTHOUGH SENATE BANKING COMMITTEE IS EXPECTED TO SERIOUSLY CONSIDER ANY HOUSE PASSED LANGUAGE DURING THIS SESSION. VANCE

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